

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58016

**HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY**

Yakima County, Washington

April 1, 1995 Through March 31, 1996

Issue Date: January 17, 1997

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HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements, as listed in the table of contents, of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Housing Authority of the City of Yakima is the responsibility of the housing authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the housing authority's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the housing authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the housing authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the housing authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the housing authority's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed instances of noncompliance that may

materially affect the financial statements, the effects of which have not been corrected in the housing authority's financial statements. The material instances of noncompliance noted during our audit are disclosed in the accompanying Schedule of Federal Findings.

We considered the instances of noncompliance in forming our opinion on whether the housing authority's financial statements are fairly presented, in all material respects, in conformity with the prescribed basis of accounting and the statutory provisions described in paragraph four of this report.

Except for the material instances of noncompliance disclosed in the Schedule of Federal Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the housing authority complied, in all material respects, with the provisions referred to in the third and fourth paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the housing authority had not complied, in all material respects, with those provisions.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our reports on general requirements and specific requirements for major programs, and in the Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the housing authority, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted reportable conditions that we believe to be material weaknesses which are identified in the Schedule of Federal Findings accompanying this report.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our reports on general requirements and specific requirements for major programs and in the Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Financial Statements Of HUD Supported
Programs And Supplemental Information Required By HUD**

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD); Department of Agriculture, Farmers Home Administration (FmHA); and local funds of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal years ended March 31, 1996 and 1995. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The housing authority's policy is to prepare its financial statements referred to above on the basis of accounting practices prescribed or permitted by HUD and FmHA, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD and FmHA differ from generally accepted accounting principles. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD and FmHA supported programs of the Housing Authority of the City of Yakima as of March 31, 1996, or the results of their operations for the fiscal years then ended.

As noted in the attached finding, procedures followed by the housing authority to account for capitalized expenditures incurred as part of their CIAP modernization projects were not sufficient to assure us that items purchased were appropriately capitalized to the HUD statements. In addition, various items of equipment were not deleted from the fixed asset accounts. Due to the conditions

noted, we were not able to establish a dollar amount for the potential over or understatement of fixed assets.

However, in our opinion, except for the effects of items as discussed in the preceding paragraph, such financial statements present fairly, in all material respects, the financial positions of the HUD and FmHA supported programs of the Housing Authority of the City of Yakima at March 31, 1996 and 1995, and the results of their operations for the fiscal years then ended, in conformity with the prescribed basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 1996, on our consideration of the housing authority's internal control structure and a report dated October 2, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accuracy of the Land, Structure and Equipment, and Fixed Asset account balances on the accompanying Balance Sheets could not be confirmed because a detailed fixed asset listing is incomplete and a fixed asset inventory has not been completed since 1989. In addition, asset acquisition and disposition duties are not segregated. The accuracy of the Materials and the Maintenance & Repair Supply account balances on the Statement of Operating Receipts and Expenditures and the Cash Flow Statements could not be confirmed because an inventory system is not maintained, an annual physical inventory is not performed, and the location of use of supplies and materials is not indicated to determine whether the appropriate grant was charged. In addition, order, authorization, receipt, and custody duties are not segregated.

Our audit was made for the purpose of forming an opinion on the financial statements of the Housing Authority of the City of Yakima taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing

procedures applied in the audit of the financial statements and, in our opinion, except for the deficiencies referred to in the preceding paragraph, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996.

We have applied procedures to test the housing authority's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended March 31, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* and HUD Compliance Supplement PIH 96-32. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow general requirements that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the programs and financial statements. The results of our tests of compliance disclosed material instances of noncompliance that is described in the accompanying Schedule of Federal Findings.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Housing Authority of the City of Yakima complied, in all material respects, with the requirements referred to in the second paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe the housing authority had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996.

We have also audited the housing authority's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended March 31, 1996. Those requirements include:

- eligibility
- reporting
- special tests and provisions related to CIAP (CFDA 14.852) and Section 8 programs (CFDA 14.855 and 14.857) as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments, Catalog of Federal Domestic Assistance*, grant agreement/contract, HUD Notice PIH 96-32, and HUD Handbook 7510.1
- and claims for advances and reimbursements

The management of the housing authority is responsible for the housing authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the housing authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for CIAP (CFDA 14.852) from HUD disclosed that the housing authority did not comply with the requirements that an accounting for and an annual physical inventory of all expendable and nonexpendable assets should be completed. In our opinion, it is necessary for the housing authority to comply with the requirement for the major program listed above.

In our opinion, except for the instances of noncompliance with the requirements applicable to CIAP (CFDA 14.852) from HUD referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Federal Findings, the Housing Authority of the City of Yakima complied, in all material respects, with the requirements referred to in the second paragraph that are applicable to its major federal financial assistance programs for the fiscal year ended March 31, 1996.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Housing Authority of the City of Yakima
Yakima, Washington

We have audited the financial statements of the Housing Authority of the City of Yakima, Yakima County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated October 2, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 2, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the housing authority complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the housing authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 2, 1996.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Eligibility
 - Reporting
 - Special requirements
 - PIH 96-32
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal

financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
- **General Requirements**
 - Relocation assistance and real property acquisition
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended March 31, 1996, the housing authority expended 89 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128 and PIH 96-32, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the housing authority's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the housing authority's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However,

we noted reportable conditions involving the accounting and/or administrative internal control structure and its operation that we believe to be material weaknesses as defined above. The conditions, which are identified in the Schedule of Federal Findings accompanying this report, were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the housing authority's compliance with requirements applicable to its major federal financial assistance programs for the fiscal year ended March 31, 1996.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 2, 1996

HOUSING AUTHORITY OF THE CITY OF YAKIMA
DBA YAKIMA HOUSING AUTHORITY
Yakima County, Washington
April 1, 1995 Through March 31, 1996

Schedule Of Federal Findings

1. Accounting For Fixed Assets And Inventory Should Comply With Federal Requirements

Our review of the housing authority's accounting and physical controls over fixed assets identified the following concerns:

- a. Detail asset records are not adequate to support balances shown in the general ledger accounts and do not consistently indicate the description, identification number, locations of property, acquisition date, source of funding, cost of property, or disposition.
- b. The housing authority did not have an adequate system in place to ensure that supplies and materials purchased under the Comprehensive Improvement Assistance Program (CIAP) modernization program were actually used for the authorized projects.
- c. We noted instances where replacement equipment, such as ranges, were capitalized without removing the cost of the original equipment from the accounting records. We also noted instances where replacement equipment was disposed of without official board approval.
- d. The housing authority has not performed a physical inventory since 1989.
- e. There exists a lack of segregation of duties in the authorization, ordering, receiving, and disposing of assets.

"Common Rule" Subpart C, Subsection __ .32 (d)(1) states:

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

The *Low-Rent Housing Accounting Handbook* 7510.1, Chapter 7, requires that an annual

inventory of expendable and nonexpendable equipment be conducted.

Yakima Housing Authority Resolution 92-300 states in part:

Personal property shall not be destroyed, abandoned, or donated without the prior approval of the board.

According to management, these conditions exist because the housing authority has experienced a change in management and there has been insufficient time to implement the needed changes in the accounting and internal control systems for general fixed asset accounting and inventory control.

These weaknesses could allow irregularities and errors to occur and not be discovered in a timely fashion during the normal course of business. In addition, we are unable to verify the accuracy of fixed assets as presented in the financial statements.

We recommend that management establish an adequate fixed asset and inventory accounting systems, adequate segregation of duties, and conduct an annual inventory of assets in compliance with federal regulations. We also recommend disposition of assets be pre-approved by the board of commissioners.

Auditee's Response

Six months prior to this audit, YHA recognizing the need for more accurate controls of our fixed assets and inventory, hired a local computer programmer to begin the task of designing an accounting system. To date, YHA has a complete custom inventory system using bar graphs and scanners to track all inventory while recognizing fixed assets, thus making the task of annual inventory more automatic. YHA is in the process of setting up this system and doing the initial labeling and counting of all our inventory.

We recognize the need for segregation of duties for a responsible control and have instituted policy and procedures that requires separate individuals for ordering, receiving, and performing the inventory count.

YHA has updated our Disposition Policy to include pre-approval by the Board of Commissioners.

YHA anticipates to be fully operational with a complete accounting of our fixed assets and inventory in compliance with Federal Regulations for our March 31, 1997 Year End.

2. Yakima Housing Authority Should Comply With The Terms Of The Youthbuild Grant Agreement

During fiscal years 1995 and 1996, the authority expended \$825,203 under Youthbuild grant No. Y-93-IS-WA-0682 (CFDA 14.243). The purpose of the grant was to provide job training to disadvantaged youths through the construction of four duplexes, consisting of two units per duplex.

Of the eight total units, the authority sold one unit to a party whose income exceeded limits specified in the federal grant agreement.

The Youthbuild Grant Agreement states in part:

All housing produced must be provided for homeless, low-income, or very-low income families.

At the time of the sale, housing authority personnel believed it was acceptable to sell the additional units created to first time home owners that exceeded the 80 percent of federal median income guidelines.

Given the grant-funded expenditures were not tracked on a per unit basis, we were unable to identify which portion of the grant was spent for the unit in question. However, the U.S. Department of Housing and Urban Development (HUD) informed us they were in the process of determining a settlement amount with the Yakima Housing Authority.

We recommend the Yakima Housing Authority reimburse the U.S. Department of HUD for the proportionate share of the Youthbuild grant expended on the unit sold.

Auditee's Response

The Implementation Agreement signed by YHA and HUD specified the funds to be used in the construction of (6) six new single family units to be sold to first time homeowners. Due to frugality YHA was able to build (8) eight single family units for first time homeowners, an increase of 33% from our original commitment to HUD.

In the absence of clear and concise direction from HUD as to the qualifications necessary for the (2) two additional units created; YHA in keeping with HUD's philosophy of "Mixed Income Developments" elected to sell one of the two additional units created to a first time hispanic homeowner with income that exceeded the 80% of Federal Median Income Guidelines required in the original Implementation Agreement with HUD.

Auditor's Concluding Remarks

We wish to thank the housing authority officials and staff for their cooperation and quick response to our recommendations. It is important that the new inventory system include the ability to track materials, supplies, and equipment by project (Job Costing System). We will review the corrective course of action taken by the housing authority during our next audit.